



## Regulators Scrutinize Stacked Provider Structures as Rates Flatten

Annuity purchase rates continued to decline in January pushing annuity prices upward. The immediate annuity rate dropped 46 basis points to 4.58% from 5.04%, and deferred rates dropped 56 basis points to 4.55% from 5.11%. The highest immediate annuity rate dropped 28 basis points to 5.24% and the highest deferred rate dropped 57 basis points to 4.97%.

Treasury rates reversed to the upside in January and settled about even at the end of the month. The 10 Year ranged 31 basis points from 4.20% to 3.89%. The 30 Year treasury trended down from 4.43% to 4.05%, or 38 basis points. The ICE BofA BBB US Corp Index Option Adjusted Spread declined as it ranged from 134 to 121 in January.

US and Foreign equity markets rose in December. The S&P 500 gained 2.1% and aggregate MSCI World markets climbed 6.9%. The inflation concerns continued to moderate and underlying equity markets once again responded with increases fueled in part by the AI revolution.

### PRT Rate Action

January 2024 PRT rates fell further presenting PRT buyers with higher prices. There was certain to be overhang from last year's activity levels. Spreads continued to moderate downward translating to higher costs. Some rate action relates to concerns for the commercial real estate sector as delinquencies emerge as a banking sector risk. Bank loan debt with duration mismatch could hamper liquidity as it did in last year's crisis.

### Stacked Provider Structures Get Regulatory Scrutiny

Last month we stated that the goalposts of Interpretive Bulletin 95-1 (IB 95-1) retained their footing. We questioned the limitations of single metric standards and the "stacked provider" business model. We asserted that our proprietary approach ("The QAS Procedural Prudence Standard") defined in 2001 (Procedural Prudence) was the "appropriate standard" for selecting annuity providers.

On February 5, 2024 the Life Actuarial Task Force of the NAIC announced that it recommended changes to the Asset Adequacy Analysis ("AAA") reserving due to the increased use of reinsurance in providing levels of relief that constrain capital. The NAIC cites situations which may cause concern for capital adequacy and may require additional reserve testing (NAIC AAA Reserving).

### QAS Pension Risk Transfer 1000 Index©

Feb 2022 to Jan 2024 Relative Price PRT v. PPA Curve - FAS



### Fed Watch

The CME Group FedWatch Tool shows a 91.5% probability of a range of 525-550 at the March 20, 2024 meeting. The confidence in the Fed's May 2024 Target Rate of 525-550 stood at 51.5% while the probability of a rate cut to 500-525 registers 44.8%. There is modest weight in the confidence for rate cuts in 2024. Such a trend implies continued higher PRT rates during 2024. (CME FedWatch Tool)

### Rates

The 10-year yield closed at 3.97% on January 31. The ICE BofA BBB US Corp Index Option-Adjusted Spread was flat at 126 basis points during January; still squeezing margins. Stay healthy.

PRT Model Plan Trax Index +/-	PRT	PPA
12mo Hi-Lo %	+/- 7.6%	+/- 8.9%
YTD % Δ	-3.4%	-0.3%
3mos % Δ	-1.4%	+4.0%
1mo % Δ	+3.2%	+4.7%

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### Where PRT Advice Matters Most

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Date	Immediate	+/-	High	+/-	Deferred	+/-	High	+/-
Jan	4.58%	-0.46	5.24%	-0.28	4.55%	-0.56	4.97%	-0.57